



Mr Keith Kendall  
Chair  
Australian Accounting Standards Board  
Level 20, 500 Collins Street  
Melbourne VIC 3000

24 January 2022

Dear Keith

**Australian Accounting Standards Board - Extended External Reporting – Invitation to Comment ITC-48**

Thank you for the opportunity to comment upon the Board's Invitation to Comment on its Extended External Reporting proposal (ITC-48).

We write as Chair of the Australian Business Reporting Leaders Forum (BRLF) and Executive Director of the Deakin University Integrated Reporting Centre and respectively. The Deakin University Integrated Reporting Centre provides the Secretariat for the BRLF. This is our response to the Invitation to Comment, and in particular the questions raised.

**1. Do you agree with the need for the AASB to adopt an immediate position, or should the AASB continue not to adopt a position until a wider international consensus has been identified?**

Response

*The AASB should adopt an immediate position. In our view, that position should immediately strongly recommend that companies apply the TCFD Recommendations in 2022.*

*In addition, that immediate position should strongly encourage companies to in relation to their 2022 reporting to start working with:*

- the existing prototype climate disclosure and general reporting requirements standards prepared by the Technical Readiness Working Group of the IFRS Foundation*
- the ISSB exposure drafts if available in time for their 2022 reporting*

*to put their 2022 TCFD disclosures into a broader business context. This should be followed by a mandate for application of the final ISSB Standards in 2023.*

Reasoning

Australia should aim for its corporate reporting system to be a 'mirror image' of the global system. This strategy proved successful 20 years ago when the IFRS Foundation and IASB were formed, and IFRS developed and adopted. Australia was able to have an influence globally, with a focus on international standards being adoptable in Australia with minimal modification.

Wide international consensus has already been achieved. Australia should act now to be as aligned in substance and form as far as possible with the international position. The Chair of the ISSB has been appointed, with the two vice-chairs likely to be announced prior to 31 January 2022. The other members of the Board are expected to be announced in February, with the first meeting in April.

It is expected that the exposure drafts of the climate disclosure and general requirements standards will be based on the prototypes produced by the Technical Readiness Working Group of the IFRS Foundation and closely resemble them; and quite likely that final standards will be issued in the final quarter of

2022. Accordingly, Australian companies will be faced with adoption choices at 30 June 2022 and 30 June 2023, either as first-time adoption or early adoption.

48% of Australian Top 200 listed entities were already adopting the TCFD Recommendations at 30 June 2021<sup>1</sup> and most of the remainder are likely to do so as a natural market progression with investors such as State Street flagging action if integrated management and disclosure in relation to climate risks is not evident<sup>2</sup>. Critical mass in TCFD adoption has already been achieved.

Many Australian companies have now embraced the concepts of integrated reporting and some such as AGL have demonstrated that integrated reporting lends itself to reporting under the TCFD Recommendations within the strategic business context of an integrated report. The <IR> Framework is one of the reporting approaches taken into account in producing the abovementioned prototypes.

Further, Recommendation 7.4 of the ASX Corporate Governance Principles and Recommendations already makes a recommendation in relation to disclosure of all environmental and social risks, including climate risks:

“A listed entity should disclose whether it has any material exposure to environmental or social risks and. If it does, how it manages or intends to manage those risks.”

The commentary for Recommendation 7.4 includes:

“One particular source of environmental risk relates to climate change.”

“The Council would recommend entities to consider whether they have a material exposure to climate change risk by reference to the recommendations of the Financial Stability Board’s Task Force on Climate-related Financial Disclosures (‘TCFD’) and, if they do, to consider making the disclosures recommended by the TCFD.”

Recommendation 7.4 also allows companies to comply with Recommendation 7.4, which all environmental and social risks including climate change, within the business context of an Operating and Financial Review in the Directors Report, or an integrated report, prepared in accordance or with reference to the International Integrated Reporting <IR> Framework.

Complying with our recommendation should not be unduly burdensome given that many companies are already adopting the TCFD Recommendations on a voluntary basis and / or in relation to Recommendation 7.4. Further, a recommendation to consider voluntary adoption of TCFD Recommendations will be obsolete and out of step with international developments before it is issued, even if that is immediately. Hence our strong recommendation to use the exposure drafts / prototypes in 2022, which would be consistent with the approach being taken in a number of other countries.

It is essential that Australia acts immediately, both at the system level and also at the level of what is likely to be required or suggested of Australian companies. This needs to go beyond suggesting that Australian companies consider the voluntary adoption of the TCFD Recommendations.

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<sup>1</sup> KPMG report [ASX200 Corporate Reporting Trends - 2021](#)

<sup>2</sup> Refer The Australian, ‘Green targets: State Street puts ASX 200 boards on notice’, 17 January 2022: “While 60 companies in the ASX200 have adopted a framework disclosing climate risks, there is concern from investors about the range of different approaches, leading to vast inconsistencies. Most climate disclosures in the Task Force on Climate-Related Financial Disclosure are not being integrated into financial statements and few companies are crunching 1.5-degree Paris target scenarios, suggesting many corporates may be failing to adequately stress-test their businesses for climate change.”

Finally, IRC-48 talks about the AASB and AUASB ‘developing an Extended External Reporting Framework for Australia’. We assume that this refers to the framework or system within which reporting standards and guidance are developed in Australia, and not an intention to replicate or parallel the <IR> Framework, which we would disagree with.

**2. Assuming that an immediate position is adopted as contemplated by the proposal, should the position be applied on a voluntary or mandatory basis?**

*Response* Reporting under the TCFD Recommendations should be mandatory in 2022. Reporting under the prototypes / exposure drafts should be strongly encouraged for 2022. Reporting under the ISSB Standards should be mandated for 2023.

Reasoning

The AASB position should be applied so as to be consistent with the manner in which ISSB Standards are to be adopted in Australia, either mandatory or voluntary. If the precedent of Australian Accounting Standards is followed, which we favour, this would be by law and on a mandatory basis. If this is the case, phase in first time adoption rules will be required. Other regions (eg the EU) and countries (eg TCFD Recommendations will be mandatory for large companies in the UK from April 2022 and New Zealand) are following a mandatory path.

We believe that a third board to sit alongside the Australian Accounting Standards Board and Australian Auditing and Assurance Standards Board under the oversight of the Financial Reporting Council – perhaps an Australian Sustainability Standards Board – should be formed as a matter of urgency.

This board can be strongly aligned with the Australian Accounting Standards Board but with its own objectives, resourcing and appropriate expertise. That expertise will focus on sustainability and integrated reporting.

We stress integrated reporting as the IFRS Foundation will ‘own’ the <IR> Framework as the umbrella conceptual framework for all corporate reporting after the Value Reporting Foundation is consolidated into the IFRS Foundation, which is scheduled to be completed before 30 June 2022. It will be important for the Australian corporate reporting system, including its oversight and standard-setting, to have strong integrated reporting expertise:

- through the FRC overseeing the application of the <IR> Framework in Australia in alignment with the IFRS Foundation’s governance of the Framework globally; and
- implemented through the ASX Corporate Governance Principles and Recommendations, building on the existing Recommendation 4.3<sup>3</sup>.

Finally, there needs to be strong connectivity between all components of the Australian corporate reporting system, including the FRC, AASB and ASX Corporate Governance Principles and Recommendations. For instance, it would be appropriate for the AASB position to recognise Recommendations 4.3 and 7.4 and note that they drive best practices in corporate governance.

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<sup>3</sup> “A listed entity should disclose its process to verify the integrity of any periodic report it releases to the market that is not audited or reviewed by an external auditor”, supported by commentary and definitions. The glossary defines a periodic corporate report to include directors’ reports (including operating and financial reviews), integrated reports as defined in the <IR> Framework and sustainability reports. Through its footnote, the commentary states that the principles of integrated reporting as set out in the <IR> Framework can be used in preparing operating and financial reviews.

**3. Assuming that an immediate position is adopted and regardless of whether the position is adopted on a voluntary or mandatory basis, do you agree that the recommendations of the TCFD provide an appropriate framework for this position?**

Response *The recommendations of the TCFD provide an appropriate framework for our recommended mandatory position for 2022. However, the TCFD Recommendations will be implemented as a natural consequence of adopting the prototypes / exposure drafts / ISSB Standards, within a stronger business context and so be of greater utility to investors. Hence our strong recommendation for their adoption in 2022, transitioning to the final ISSB Standards in 2023.*

Reasoning

While we agree that the recommendations of the TCFD provide an appropriate framework for 2022, in the longer run, we do not agree that the recommendations of the TCFD provide an appropriate framework for this position in isolation of other broader reporting changes that are being demanded. This is not to criticise the TCFD Recommendations. On the contrary, the Recommendations are tried and tested.

However, the global corporate reporting system has moved beyond 'TCFD-only'. The TCFD Recommendations are one of the resources which have been an input to the development of the prototype climate reporting and general reporting requirements standards, along with the <IR> Framework, industry-specific SASB Standards, CDSB Standards and the WEF Recommendations.

It is clear that an Australian company following the prototypes will also be following the TCFD Recommendations but with the advantage of:

- resultant disclosures being within the whole-of-business-centric context of an integrated report
- Australian companies preparing to be ready for reporting under the Australian equivalents of ISSB Standards which are likely to be in operation for 2023 corporate reporting
- the resulting reports providing the basis of suitable criteria for assurance.

Australia must move in parallel with, and have a similar system to, the global system as it relates to <IR> Framework oversight, corporate governance over corporate reporting, and standard setting - now.

Should you require further information, we can be contacted at the below e-mail addresses.

Yours faithfully



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**About the Deakin Integrated Reporting Centre**

The purpose of the Deakin Integrated Reporting Centre is to promote the adoption of integrated reporting in Australia and internationally and support research, thought leadership and education in integrated reporting, with the aim that the Centre be recognised by the profession, business community, government and academic institutions as an international leader in this field.

**About the Australian Business Reporting Leaders Forum**

The purpose of the Australian Business Reporting Leaders Forum is to drive positive reform in Australian business reporting. It is a discussion forum on topical issues for providing education, ascertaining points of view, making submissions on relevant matters and advocating for change in Australian business reporting - to better inform both the capital markets and broader stakeholders on an organisation's performance and future prospects.